

Message Text

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43

ACTION EB-11

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TO SECSTATE WASHDC 3545

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY NAIROBI IMMEDIATE

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

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UNCLAS PARIS 25380

NAIROBI FOR US DEL IMF/IBRD

DEPT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652 N/A

TAGS: EFIN, FR

SUBJECT: POMPIDOU CONFERENCE: INTERNATIONAL MONETARY SYSTEM

1. SUMMARY: IN LENGTHY REPLY TO QUESTION ON INTERNATIONAL MONETARY REFORM, PPOMPIDOU LARGELY RESTATED WELL- KNOWN FRENCH POSITIONS, ADDING FROM TIME TO TIME A FEW PERSONAL QUIRKS. HE PRESENTED THOROUGHGOING OVERHAUL OF IMF AS ESSENTIAL ELEMENT OF REFORM, SAYING THAT IF FUND WERE TO BE GUARDIAN OF PRINCIPAL UNCLASSIFIED

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RESERVE INSTRUMENT IN NEW SYSTEM, IT HAD TO BE MADE TRULY INDEPENDENT OF PRESSURES FROM ANY ONE COUNTRY OR GROUP OF COUNTRIES, BOTH AS REGARDS ITS STATUS AND EVEN -- THIS WAS A PERSONAL HOPE-- ITS GEOGRAPHIC LOCATION. END SUMMARY.

2. INEVITABLE QUESTION ON INTERNATIONAL MONETARY REFORM WAS PUT BY PAUL FABRA (LE MONDE), WHO REFERRED TO FRENCH FINANCE MINISTER'S SPEECH AT IMF/IBRD MEETING IN NAIROBI AND ASKED HOW IT HAD COME ABOUT THAT FRANCE HAD "TURNED ITS BACK" ON BRETTON WOODS SYSTEM. IN THIS REGARD, FABRA SPECIFICALLY DESCRIBED BRETTON WOODS AS REQUIRING CONVERTIBILITY OF DOLLAR INTO GOLD.

3. POMPIDOU REPLIED AS FOLLOWS

(A) TO PUT RECORD STRIGHT, BRETTON WOODS AGREEMENTS DID NOT SPECIFY GOLD CONVERTIBILITY OF DOLLAR. THIS WAS UNILATERAL U.S. DECISION. HOWEVER, CONSEQUENCE OF THIS UNILATERAL DECISION HAD BEEN DISTORTION OF BRETTON WOODS SYSTEM WHEN DOLLAR BECAME NO LONGER CONVERTIBLE INTO GOLD.

(B) WHY WAS FRANCE PARTICIPATING IN PRESENT MONETARY REFORM NEGOTIATIONS? EXPERIENCE SHOWED THAT FRANCE COULD NOT LIVE IN ECONOMIC ISOLATION, AND THIS MEANT NOT IN MONETARY ISOLATION EITHER. FRENCH FOREIGN TRADE HAD NOW BECOME SO IMPORTANT IN TOTAL FRENCH ECONOMIC ACTIVITY THAT DISTURBANCES IN WORLD ECONOMIC AND MONETARY PICTURE INEVITABLY HAD IMPORTANT EFFECTS ON FRENCH ECONOMY. EXPERIENCE ALSO SHOWED THAT "GOLD PILES" COULD RISE AND FALL RAPIDLY. THUS, WHAT MATTERED WAS TO OBTAIN AGREEMENT THAT WOULD PROMOTE SOUND WORLD ECONOMIC CONDITIONS.

(C) IN FRENCH VIEW WHAT WERE MAJOR ELEMENTS OF NEW SYSTEM? (AT THIS POINT POMPIDOU OBSERVED PARENTHETICALLY THAT INsofar AS HE COULD SEE, THERE HAD BEEN NO PROGRESS AT NAIROBI MEETING, BUT WORK WOULD GO FORWARD.)

(1) PARITIES SHOULD BE FIXED, BUT THEY SHOULD ALSO BE ADJUSTABLE. EXACTLY WHAT DID THIS MEAN? THERE WAS GREAT NEED DEFINE CONCEPT IN SPECIFIC TERMS.

(2) SYSTEM SHOULD BE ONE THAT WOULD NOT RELY ON NATIONAL CURRENCIES HAVING SPECIAL STATUS TO SERVE AS RESERVE INSTRUMENT.
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WE WERE MOVING TO SYSTEM WHERE A CERTAIN NUMBER OF CURRENCIES WOULD HAVE RESERVE FUNCTIONS, INsofar AS NEEDS FOR WORKING BALANCES WERE CONCERNED. LIST OF SUCH CURRENCIES WOULD BE DRAWN UP, WHICH LIST WOULD BE SUBJECT TO PERIODIC REVISION.

(3) WHAT OTHER ELEMENTS WOULD CONSTITUTE RESERVES? FOR BOTH THEORETICAL AND PRACTICAL REASONS, THESE ELEMENTS COULD NOT BE ESCLUSIVELY GOLD. WITHOUT ENTERING INTO THEORETICAL QUESTION, IT HAD TO BE RECOGNIZED FROM PRACTICAL VIEWPOINT THAT SOME COUNTRIES WOULD NOT ACCEPT SYSTEM IN WHICH GOLD WAS ONLY RESERVE INSTRUMENT THEREFORE, IT SERVED NO PURPOSE FOR FRENCH TO CLING TO SUCH A VIEWPOINT.
THEY COULDN'T ISOLATE THEMSELVES FROM REST OF WORLD. FRANC,

LIKE OTHER CURRENCIES, WAS VULNERABLE, AND HENCE FRENCH NEEDED SUPPORT OF OTHERS WHEN FRANC UNDER ATTACK, AS IN MAY 1968.

(4) THUS, SOMETHING ELSE SHOULD BE INCLUDED AMONG RESERVE INSTRUMENTS, AND THAT SOMETHING ELSE WAS SDRS. PERHAPS NOT WITH SAME NAME, NOR WITH SAME CHARACTERISTICS, BUT DERIVED FROM SDRS. STRICT RULES WOULD BE REQUIRED FOR ISSUANCE AND USE.

(5) ROLE OF IMF AS ISSUER OF PRINCIPAL RESERVE INSTRUMENT REQUIRED ITS THOROUGHGOING REFORM SO AS TO MAKE IT TRULY INDEPENDENT AND PROVIDE IT WITH PROTECTION AGAINST PRESSURES FROM ANY ONE COUNTRY OR GROUP OF COUNTRIES, BOTH AS REGARDS ITS STATUS AND EVEN -- THIS WAS A PERSONAL HOPE -- ITS GEOGRAPHICAL LOCATION (LOCALISATION). PROBABLY THIS QUESTION OF STATUS OF IMF WAS MOST ESSENTIAL ELEMENT IN REFORM

(6) DISTRIBUTION OF SDRS SHOULD TO SOME DEGREE TAKE INTO ACCOUNT NEEDS OF DEVELOPING COUNTRIES. THIS WOULD CONSTITUTE AN ADDITIONAL FORM OF AID.

(7) WHETHER OR NOT GOLD SHOULD BE DEMONETIZED DEPENDED ON WHAT WAS MEANT BY THAT TERM. IF IT MEANT THAT HOUSEWIVES WOULD NO LONGER BUY GROCERIES WITH LOUIS D'OR, SO BE IT. BUT IF IDEA WAS THAT CENTRAL BANKS SHOULD NO LONGER PLACE VALUE ON, HOLD AND USE GOLD, THEN PEOPLE WERE SIMPLY KIDDING THEMSELVES. (TO UNDERLINE HIS POINT, POMPIDOU REFERRED TO U.S., WHICH HAD TAKEN STEPS TO STOP DECLINE IN ITS GOLD RESERVE, WHEN THAT RESERVE FELL TO MINIMUM ACCEPTABLE LEVEL.) FRENCH VIEW WAS THAT CENTRAL BANKS SHOULD UNCLASSIFIED

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BE ALLOWED TO BUY AND SELL GOLD (WITH EMPHASIS ON "BUY") AT REASONABLE PRICE. IT WOULD BE DESIRABLE TO REQUIRE THAT TO CERTAIN EXTENT, TRADE (SIC) DEFICITS BE SETTLED IN GOLD. FRENCH WILL PRESENT THIS IDEA, BUT THEY DON'T EXPECT TO GET MUCH SUPPORT.

(8) DOLLAR CONVERTIBILITY WAS BOTH FALSE PROBLEM AND SERIOUS PROBLEM. IN ONE SENSE, IT WAS FALSE PROBLEM, BECAUSE IF YOU LOOKED ONLY AT OFFICIAL DOLLAR BALANCES, IT WAS EASY ENOUGH TO FIND SOLUTION. BUT WHAT WAS MORE IMPORTANT WERE PRIVATE DOLLAR BALANCES, WHICH AMOUNTED TO SEVERAL TIMES (SIC) THE TOTAL OFFICIAL BALANCES. ALL THIS LIQUIDITY IN EURODOLLAR MARKET SLOPPED AROUND EVERY TIME THERE WERE MONETARY DISTURBANCES. THAT IS WHY THERE COULD BE A STABLE SYSTEM ONLY IF THERE WERE CONTROLS ON SHORT-TERM CAPITAL MOVEMENTS. (POMPIDOU SAID IN THIS REGARD HE HAD BEEN INTERESTED TO LEARN THAT U.S. CONGRESS WAS CONSIDERING REQUIRING U.S. COMPANIES TO REPORT TO U.S. AUTHORITIES IN MORE DETAIL ON THEIR CAPITAL MOVEMENTS; WHILE NO ASSURANCE THIS MEASURE WOULD BE ADOPTED, IT SHOWED ENCOURAGING MOVEMENT IN U.S. ATTITUDES ON CAPITAL MOVEMENTS.)

(9) IT WAS IMPOSSIBLE TO RELY ON RESERVE INDICATORS

AS AUTOMATIC TRIGGER FOR BALANCE-OF-PAYMENTS ADJUSTMENT.
REASON WAS THAT SUCH A TECHNIQUE WOULD PROVIDE PERMANENT ENCOURAGEMENT

TO SPECULATION. MOVEMENTS OF INDICATORS WOULD BE KNOWN TO SPECULATORS,

AS WELL AS TO MONETARY AUTHORITIES, AND WOULD BE PERFECT GUIDE
TO SPECULATORS AS TO WHICH CURRENCIES TO SPECULATE ON, UP OR
DOWN. OF COURSE, MONETARY AUTHORITIES SHOULD MAINTAIN SURVEILLANCE
OF RESERVE MOVEMENTS, INCLUDING RESERVE INCREASES. AND EXCESSIVE
RESERVE INCREASES SHOULD BE SUBJECT TO PRUDENT MEASURES, WITH
EMPHASIS ON WORD "PRUDENT."

4. CONCLUDING IN PHILOSOPHICAL VEIN, POMPIDOU STRESSED THAT
KEYNOTE OF INTERNATIONAL MONETARY RELATIONS SHOULD BE COOPERATION
AND NOT STRIFE. WE WERE NO LONGER LIVING IN TRIBAL WORLD, WHERE
STRONG COULD RIDE ROUGHSHOD OVER WEAK WITH NO ADVERSE CONSEQUENCES
TO THEMSELVES. COUNTRIES HAD TO BE RELIED UPON TO OBSERVE
DISCIPLINE, AND IF SELF-DISCIPLINE WAS LACKING, THEN COMMUNITY
WOULD HAVE TO STEP IN TO ENSURE DISCIPLINE. MONETARY SYSTEM WE
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WERE ALL SEEKING WAS ONE THAT WOULD FACILITATE INTERNATIONAL
ECONOMIC EXCHANGES, ENSURE MONETARY STABILITY, DISCOURAGE INFLATION
AND PROVIDE TO DEVELOPING WORLD THE OPPORTUNITIES THAT WERE ITS
DUE. IRWIN

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TAGS: EFIN, FR, (POMPIDOU, GEORGE)
To: STATE INFO BONN
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